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Consulting and Governmental Relations

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MEMORANDUM

TO: Transportation, Water, and Infrastructure Committee

FROM: Mark Watts

With the Legislature presently in the midst of their annual monthlong summer recess, the report that follows takes stock of the present status of the State Budget, discusses the Transportation Secretary's major new clean transportation initiative, and provides updated information on the upcoming completion of the 2021 half of the two-year legislative Session

Capital Overview

The Legislature will reconvene on August 16, 2021, to continue the refinement of the remaining open elements of the state budget and also to be faced with the September 10, 2021, deadline to pass legislation.

State Budget Overview

As the end of the 2020-21 FY approached in May of this year, Governor Newsom proposed a refreshed, new major augmentation to his proposed 2021-22 state budget in the form of the \$100 billion "California Come Back Plan". This new approach consisted of \$75 billion in unanticipated state revenue and \$26 billion in federal COVID relief dollars.

Transportation Budget Actions

As part of the May Revision, Governor Newsom proposed significant investments in transportation infrastructure, including reiterating his request for \$4.2 billion in Prop 1A bond funds for the High Speed Rail project, \$3.1 billion in new, General fund for high-priority rail and active transportation projects, and \$2.4 billion in accelerated SB 1 interest to repair the state highways and local bridges, and accelerate rail projects.

With the completion of the budget subcommittee work on the main budget elements and the Governor's May Revision proposals, the Legislature secured passage of the main budget bill (largely a placeholder) by the June 15, 2021 deadline. The 2021-22 state budget act at that point provided for a \$232.6 billion overall spending plan, including federal assistance and the estimated state budget surplus of \$76 billion.

Ultimately, the Governor signed into law AB 128 - the Budget Act of 2021 on June 28, 2021.

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Key Transportation Budget Trailer Bill

Assembly Bill 149 included Transportation specific modifications to state law to ensure that budgeted funds met the state's spending priorities.

One highlight of note - through the work with the California Transit Association, a coalition of transit agencies were successful in securing extended relief for transit operators in farebox recovery reporting. This is an important victory - as transit agencies statewide rebound from lost ridership throughout the pandemic. The requirements to maintain specific farebox recovery ratios are suspended until July 1, 2026. The bill would also allow for operators to include all free and reduced transit fares at their current full retail value and will allow operators to include federal grant funds as local funds for those purposes. This is an important win for the agency's efforts to develop and implement a fareless transit system for k-12 students and low income riders. The bill also expands the allowed use of state of good repair funds.

State Competitive Grant Funds in Jeopardy

The legislature followed up with an additional Budget Bill Junior (SB 129) to agree with the Governor on some additional major state budget components. SB 129 appropriated \$2.5 billion in General Fund revenues to "plus up" the TIRCP program but included language specifying that the availability of those monies is contingent on enactment of additional legislation by October 10, 2021, specifying how they will be allocated. It is widely understood that this provision was included to provide some "negotiating funds" as it relates to the appropriation for high-speed rail.

The Governor's May Revise request specified the following uses for the \$2.5 billion:

- \$1 billion to deliver critical projects ahead of the Los Angeles 2028 Olympic Games as a set aside within the TIRCP program
- \$1 billion for TIRCP funding statewide
- \$500 million for high priority grade separation and grade crossing Improvements

It has widely been assumed that given the Legislature appropriated the \$2.5 billion requested by the Governor, that the Legislature intends to go along with this framework, leaving up to \$1.5 billion available for statewide competition, including \$1 billion for transit and rail projects and \$500 million for grade-crossing funds.

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The Administration is actively seeking the means to “lock down” the \$4.2 billion Prop 1A appropriation for the High Speed Rail project and representatives have reached out to organization to enlist their support for the appropriation. However, they have also made it clear that the \$2.5 billion in SB 129 is to be considered a “package” that includes the HSR funding.

Other transportation funding programs of note.

Climate Adaptation. A new \$400 million, General fund, for a planning and infrastructure Grant program to be administered by Caltrans, split 50/50 between the state and local adaptation needs. A maximum of \$25 million is set-aside from the local portion for planning.

Active Transportation. An augmentation of \$500 million for the Active Transportation Program with language specifying that it will not be made available until further legislation is enacted by October 10, 2021.

Sustainable Communities Strategies (SCS). This new program will be under the administration of HCD and will provide \$600 million to fund projects to assist transportation planning agencies to meet SCS objectives. Program details are not available yet.

Energy. The Zero emission budget augmentation includes \$2.7 billion in funding for a variety of programs related to zero-emission vehicles. Among this is \$407 million for ZEV in the transportation budget that are funded from the PTA (\$280 million) federal funds (\$27 million) and General Fund (\$100 million) s appropriated in the Transportation Secretary’s budget item. Of note, the \$100 million General Fund is designated for zero-emission rail and transit demonstration projects.

Next Steps

Due to the historic surplus and the pandemic, this has been a highly unusual budget year with multiple bills and extended negotiations. We do anticipate that further trailer bills will be forthcoming over the next few months providing more details related to the funding for the sustainable communities block grant, climate adaptation, active transportation, and of great importance to rail and transit agencies, the supplemental TIRCP funding.

Newsom Administration Climate Action Plan for Transportation Infrastructure (CAPTI)

In development over a period of a year and half, the Climate Action Plan for Transportation Infrastructure (CAPTI) resulted from a directive from Governor Newsom to Secretary Kim and was founded on the basis of two executive orders, N-19-19 and N-79-20. Ultimately, the CAPTI is the product of a collaborative effort involving many state agencies coupled with the engagement of local and regional stakeholders.

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The Secretary has indicated that the framework aligns state transportation investments with the state's climate, health and social equity goals.

The final CAPTI document was posted by California State Transportation Agency (CalSTA) on July 15, 2021. The upcoming rounds of state programming of major transportation programs, such as the ITIP component of the STIP will form the initial steps towards the integration of the funding and state goals.